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**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

Soviet Foreign Economic Policy

Secret

28 April 1972
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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
28 April 1972

INTELLIGENCE MEMORANDUM

Soviet Foreign Economic Policy

1. The USSR traditionally has pursued a policy of maximum economic independence from the West. Soviet planners attempt to ensure that most Soviet requirements for foreign goods are met within the European Communist world. In this system, the role played by the monopolistic state trading corporations and the fact that foreign trade prices bear no systematic relation to domestic prices have served to insulate the Soviet economy from economic developments in the outside world. As a result, about two thirds of Soviet foreign trade is conducted with other Communist countries, mostly with Eastern Europe (Table 1). Of the one third with the non-Communist countries, 60 percent is with the developed countries and most of the latter is hard currency trade.

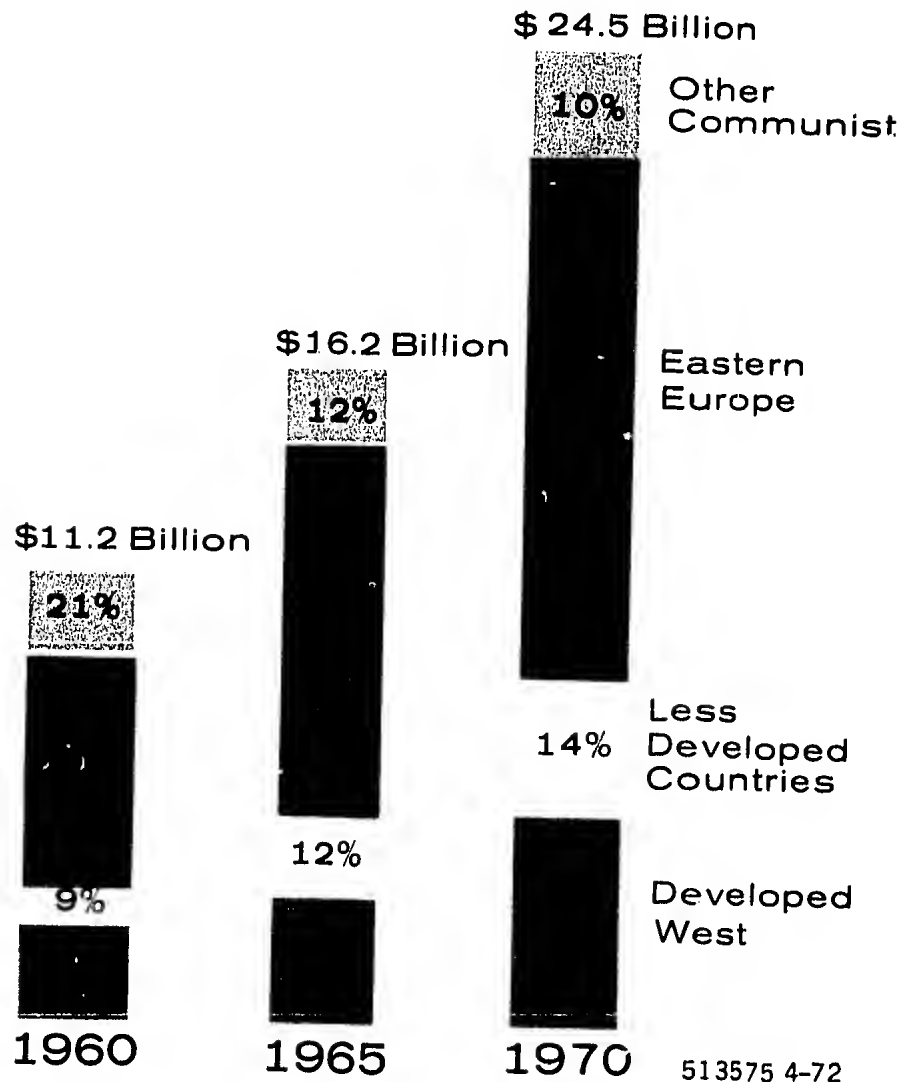
2. The goal of independence from the West has been basically achieved. The USSR is now largely a self-sufficient economic entity with vast and diverse resources, a well-developed industrial base, and a large internal market. In aggregative terms, foreign trade plays only a small role in the economy. Exports (or imports) represent about 2 1/2 percent of GNP, compared with 4 1/2 percent in the US. In recent years, however, the USSR has tempered its policy of self-sufficiency in order to obtain from the developed West the advanced technology and industrial equipment needed to accelerate growth and reduce the gap in productivity between itself and the West. Soviet technological development continues to lag behind that of the West, and imports of technology and equipment continue to account for a substantial portion of the increasing volume of trade with the West.

Note: This memorandum was prepared by the Office of Economic Research and coordinated with the Office of Current Intelligence.

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USSR: Foreign Trade by Major Area (Exports plus Imports)



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Table 1
Geographic Distribution of Soviet Trade a/

Area	Million US \$							
	1960		1965		1969		1970	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
<i>Total</i>	5,564	5,628	8,175	8,058	11,655	10,327	12,800	11,739
Communist countries	4,211	3,978	5,556	5,610	7,682	6,696	8,367	7,644
Eastern Europe	3,074	2,795	4,553	4,673	6,198	6,011	6,758	6,634
China	817	848	192	226	28	29	25	22
Other	320	335	815	712	1,456	656	1,584	988
Free World	1,352	1,650	2,618	2,448	3,973	3,631	4,433	4,095
Developed West	983	1,080	1,438	1,601	2,230	2,495	2,345	2,780
Less developed countries	336	565	911	845	1,169	1,119	1,291	1,298
Unspecified <u>b/</u>	33	6	270 <u>c/</u>	2	574	17	797	17

a. Because of rounding, components may not add to the totals shown.

b. Largely military-related exports to less-developed countries.

c. Including Hong Kong.

Table 2
Selected Soviet Commodities Traded with the Developed West a/

Commodity	1965		1968		1969		1970	
	Million US \$	Per-cent	Million US \$	Per-cent	Million US \$	Per-cent	Million US \$	Per-cent
	US \$	cent	US \$	cent	US \$	cent	US \$	cent
Exports								
<i>Total</i>	1,438	100.0	2,051	100.0	2,230	100.0	2,345	100.0
Crude oil and petroleum products	291	20.2	506	24.7	468	21.0	528	22.5
Coal and coke	100	7.0	100	4.9	115	5.2	131	5.6
Wood and wood products	297	20.7	338	16.5	346	15.5	386	16.5
Cotton fiber	59	4.1	102	5.0	77	3.5	37	1.6
Base metals and manufactures	203	14.1	210	10.2	168	7.5	209	8.9
Food	91	6.3	143	7.0	198	8.9	121	5.2
Furs and pelts	54	3.8	54	2.6	49	2.2	46	2.0
Other	198	13.8	314	15.3	299	13.4	336	14.3
Unspecified <u>b/</u>	144	10.0	285	13.9	510	22.9	551	23.5
Imports								
<i>Total</i>	1,601	100.0	2,144	100.0	2,495	100.0	2,780	100.0
Machinery and equipment	510	31.9	896	41.8	1,118	44.8	1,099	39.5
Base metals and manufactures	116	7.2	157	7.3	177	7.1	236	8.5
Chemicals	140	8.7	195	9.1	215	8.6	214	7.7
Wheat and wheat flour	366	22.9	121	5.6	28	1.1	122	4.4
Manufactured consumer goods	63	3.9	259	12.1	276	11.1	280	10.1
Other	374	23.4	422	19.7	500	20.0	593	21.3
Unspecified	33	2.1	92	4.3	180	7.2	236	8.5

a. Because of rounding, components may not add to the totals shown.

b. Largely platinum group metals, nickel, and gem diamonds.

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3. Soviet foreign trade policy is an integral part of foreign policy, and the USSR's conduct of trade and trade negotiations often serves to further its political aims. For example, the Soviet agreement to include West Berlin within the area to be covered by the recently initialed Soviet - West German trade agreement (a concession heretofore refused by the USSR) is designed to help Brandt push his Eastern treaties through the Bundestag. In this regard, the Soviets have a penchant for negotiating cooperation and trade agreements with the developed Western countries as a means of fostering Soviet legitimacy as a reliable trade partner and bolstering its prestige. These agreements also benefit the USSR by providing it with valuable technical data at little cost. The Soviet desire to conclude a trade and cooperation agreement with the United States should be viewed partly in this light.

4. The Soviet interest in obtaining advanced equipment and technology from the West will continue for the foreseeable future. The current five-year plan (1971-75) will require substantial imports from the West, particularly in the automotive, gas, oil, chemical, telecommunications, and electronics industries. During the last five-year plan period (1966-70), Soviet imports of Western machinery and equipment increased from \$560 million to \$1.1 billion (Table 2). These imports are expected to continue at this high level throughout the 1971-75 plan period, as evidenced by the sharp upsurge in Soviet orders for Western plant and equipment since the end of 1970.

5. Consumer goods imports have also become a major element in Soviet trade with the West since the large wheat imports of the mid-1960s. Grain imports declined steeply after 1966 but rose again in 1970-71, and grain will be a major import item for at least the next few years. Imports of meat have also been unusually high in the past two years. Meanwhile, imports of manufactured consumer goods, especially clothing and footwear, have grown substantially since 1966. Soviet interest in increasing consumer welfare is manifest in the willingness to spend hard currency for consumer goods.

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Table 3

USSR: Selected Industrial Western
Trade Partners
1970 a/

	Million US \$		
	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
Total Industrial West	2,345	2,780	-435
Of which:			
United States	64	115	-51
Japan	379	345	34
United Kingdom	465	248	217
West Germany	257	375	-118
Finland	287	303	-16
Italy	212	313	-101
France	140	319	-179
Canada	8	131	-123
Sweden	117	144	-27
Netherlands	168	80	88

a. Based on Soviet statistics.

Table 4

Estimated Soviet Drawings
and Scheduled Repayments on Western
Medium-Term and Long-Term Credits

<u>Year</u>	<u>Estimated Drawings</u>	<u>Scheduled Repayments</u>	<u>Interest</u>	<u>Net Credits</u>	<u>Outstanding Debt at End of Year</u>
1959	60	12	0	48	48
1960	125	37	2	86	136
1961	165	70	6	89	231
1962	180	106	10	64	305
1963	140	130	14	-4	315
1964	170	147	15	8	338
1965	190	149	17	24	379
1966	275	149	20	106	505
1967	305	152	29	124	658
1968	510	215	38	257	953
1969	630	270	57	303	1,313
1970	750	326	79	345	1,737
1971 <u>a/</u>	850	411	99	340	2,176

a. Preliminary.

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Soviet Payments Problems

6. Throughout most of the 1960s, the USSR bought more than it sold in trade with hard currency countries (Table 3). The difference was financed in part by selling gold, but mainly by borrowing and buying on credit. Soviet indebtedness to the West, principally long-term, has grown rapidly in recent years and apparently exceeded \$2 billion by the end of 1971 (Table 4).

7. Soviet exports to the West are expected to grow by perhaps 7 - 7 1/2 percent annually during the 1970s* compared to more than 9 percent in the 1960s. Preliminary estimates for 1971 indicate exports grew less than 5 percent. Net hard currency earnings from tourism are expected to increase markedly and may average \$100 million by 1975. On the other hand, debt service charges are rising rapidly and were equivalent to about 17 percent of export earnings in 1970. If, as estimated above, the growth of Soviet exports to the West slows markedly, the ratio of debt service to exports will soon surpass 20 percent and could exceed 25 percent before long. Even with the rising credit drawings, debt service is likely to exceed the drawings in the mid-70s. Net credits will thus be negative, which means that Soviet capacity to import will be diminished.

8. The USSR thus may have to draw on its gold reserves or ration its imports more strictly. The USSR now has more than \$2 billion in gold reserves, and its net annual accumulation (production less

*Estimates range from 5.8 percent to 7.4 percent. Projections of Soviet exports to the West were made by fitting various statistical trends to historical data and by analyzing changes in supply and demand for major Soviet exports. A 7.4 percent growth implies the value of exports would approximate \$3,350 million by 1975, \$4,150 million by 1978 and roughly \$4.8 billion by 1980. Exports late in the decade would be larger if certain raw material deals come to fruition.

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consumption) is about \$200 million. Currently the Soviets can take advantage of high free market prices for gold, but massive sales would rapidly bring the price down. If the USSR chooses to ration its imports more strictly, imports of highly prized Western equipment and technology will be maintained to the extent possible, but there probably will be greater substitution of technology for equipment. The USSR has been importing manufactured consumer goods from the West at a rate of about \$250 million annually since 1966. Although these imports are candidates for pruning, the leadership would resort to this reluctantly.

9. Soviet imports can be increased further by what might be termed self-liquidating credits--credits that create new exports out of which debt is paid. Some recent contracts have stipulated repayment in the product of the installation built with Western credit. The only sizable contracts of this type now in effect are the 1968 Soviet-Japanese timber agreement, the 1971 Soviet-Japanese wood chip agreement, and the Soviet gas-for-pipe deals with Austria, Italy, and West Germany. Soviet exports of gas and wood generated by these deals will be earning more than \$100 million annually by 1973. Another gas-for-pipe deal for \$373 million is about to be concluded with West Germany, and contracts with France and Japan are expected. The export projections above are adjusted to include these deals.

10. The export projections used here do not, however, include several large self-liquidating deals under discussion. The largest and most important of these is the proposed Soviet-US liquefied natural gas (LNG) agreement. If an agreement is reached next year, Soviet gas could begin to move at a rate of 1 billion cu. ft. per day by 1978 (estimated value, \$183 million annually), and by 1980 Soviet exports might be valued at \$365 million. The \$1.6 billion in US equipment would be delivered on credit (possibly during the period 1974-77) and would be paid off by, perhaps, 1984.

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Table 5
US Trade with the USSR

<u>Year</u>	<u>Million US \$</u> <u>a/</u>	
	<u>Exports</u> <u>b/</u>	<u>Imports</u> <u>c/</u>
1948	28	87
1949	7	39
1950	1	38
1951	Negl. <u>d/</u>	27
1952	Negl. <u>d/</u>	17
1953	Negl. <u>d/</u>	11
1954	Negl. <u>d/</u>	12
1955	Negl. <u>d/</u>	17
1956	4	24
1957	4	17
1958	3	18
1959	7	29
1960	39	23
1961	46	23
1962	20	16
1963	23	21
1964	147	21
1965	45	43
1966	42	50
1967	60	41
1968	58	58
1969	106	51
1970	118	72
1971	162	58

a. Derived from US data, rounded to the nearest million dollars.

b. Including re-exports.

c. F.A.S. general imports.

d. Less than \$1 million.

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11. Another large deal being discussed is an exchange of Soviet oil for Japanese pipe and equipment for a pipeline from Irkutsk to Nakhodka (about 2,650 miles). The \$1 billion or so in Japanese pipe and equipment would be repaid by Soviet oil deliveries through the pipeline. A minimum of 20 million tons of crude oil annually for 20 years has been discussed. At \$15-20 per ton, the \$1 billion credit would be paid off at a rate of \$300-400 million annually or in 3 to 4 years, after which the USSR would be earning these amounts annually for at least the remaining years of the agreement.* A number of other large projects have also been discussed with Western firms and governments.

US-Soviet Trade Prospects

12. The US was one of the USSR's principal trading partners prior to, during, and immediately following World War II (in the latter two periods trade consisted largely of US Lend Lease shipments). The relatively low level of US-Soviet trade since 1948, when the United States accounted for about 18 percent of Soviet foreign trade with the Industrial West, is in large measure due to the state of US-Soviet political relations. Table 5 shows the development of trade since 1948.

13. There were only modest increases in US-Soviet trade until 1969 (except for 1964, when the US exported large quantities of wheat to the USSR). Most of the recent increase has resulted from the growth of US exports (e.g., machine tools and chemicals in 1969 and construction equipment and chemicals in 1971). Even in 1971, however, the US accounted for only about 4 percent of total Soviet trade with the Industrial West (exports 6 percent and imports 2 percent). Table 6 compares Soviet trade with the Industrial West and with the United States in recent years.

**If an agreement is reached by the end of 1972, oil could be moving by 1978. Soviet imports of Japanese pipe and equipment probably would take place during 1973-76.*

USSR: Trade with the Developed West and the United States

(Million US \$)



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Table 6

USSR Trade with the Industrial West
and the United States
1965-71

Million US \$				
<u>Year</u>	<u>Industrial West ^{a/}</u>		<u>United States ^{b/}</u>	
	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>
1965	1,438	1,601	43	44
1966	1,711	1,742	50	42
1967	1,886	1,782	41	60
1968	2,051	2,144	58	57
1969	2,230	2,495	51	106
1970	2,345	2,780	72	118
1971	2,450 <u>c/</u>	2,800 <u>c/</u>	58	162

a. Based on Soviet statistics; exports and imports f.o.b.

b. Based on US statistics; exports (US imports) f.a.s., imports (US exports) f.o.b.

c. Preliminary estimates.

14. A major reason that the US has not shared in the growth of Soviet trade with the West is the restrictions the US has maintained on its trade with the USSR. The most important restrictions have been:

- a. Prohibition on government credits and credit guarantees (now permitted at Presidential discretion).
- b. More stringent export controls than those of our NATO allies and Japan.

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- c. Denial of MFN treatment.
- d. The 50/50 shipping requirement on grains (now abolished).
- e. The embargo on seven types of Soviet furs.

Other factors instrumental in holding down US trade with the USSR in the past include public hostility to Soviet goods and the reluctance of US businessmen to sell in the Soviet market. There are also economic constraints, particularly the limited US market for Soviet goods--mainly raw materials--which are widely sold in Western Europe, and distance.

15. In projecting US trade with the USSR in the 1970s, it is assumed that the most important US restrictions will be dropped, that is, Eximbank credits will be granted, MFN treatment will be restored, and US export controls will be reduced more or less to the COCOM level. It is assumed, moreover, that the climate in the US for expanded economic relations with the USSR will continue to improve.

16. US exports have previously experienced sharp increases and subsequent declines, e.g., the \$125 million increase in 1964 (wheat) and a decline in the next year by \$100 million. Similarly, the commodity composition of US exports to the USSR has frequently changed in response to changes in Soviet demand. Projections, therefore, are likely to be unreliable. A reasonable expectation would be that US exports to the USSR would grow to \$1 billion by 1980, if several major projects come to fruition. This would mean an increase in the US share of total Soviet imports from the Industrial West from 6 percent to between 18 and 20 percent.

17. The following table presents an optimistic projection of US exports to the USSR through 1976. Exports reach \$650 million in 1976. The tables include \$1 billion in feed grain delivered over a five-year period, as was suggested during the visits of Secretary Stans and Secretary Butz.

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Table 7

Estimated Commodity Composition
of US Exports to the USSR a/

Million US \$				
<u>Year</u>	<u>Total</u>	<u>Agricultural Products <u>b/</u></u>	<u>Machinery and Equipment</u>	<u>Other</u>
1970	119	2	45	72
1971	162	35 <u>c/</u>	60 <u>c/</u>	67 <u>c/</u>
1972 <u>c/</u>	450	250	150	50
1973 <u>c/</u>	450	200	200	50
1974 <u>c/</u>	500	200	250	50
1975 <u>c/</u>	550	200	300	50
1976 <u>c/</u>	650	200	400	50

a. Assuming \$1 billion in exports of agricultural products during the period FY 72/73 to FY 76/77 plus \$185 million ordered for delivery in FY 71/72.

b. Excludes hides and skins.

c. Estimated.

Availability of long-term credit and an easing of US export controls are necessary for achieving these projected levels.

18. Some of the US machinery and equipment lines in which the USSR has expressed interest are automotive manufacturing equipment, deep well drilling equipment, automatic oil transfer and storage systems, gas transmission equipment, rolling mill equipment, off-the-road vehicles, electronics (computer equipment, semi-conductor manufacturing equipment, testing equipment), instruments, data transmission equipment, and numerically controlled machine tools. The US probably will continue to export other items not currently affected by restrictions, including raw hides, wood pulp, various chemicals, and other items. The US may also share in the growing Soviet imports of consumer goods.

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19. US imports from the USSR have increased little in recent years and consist almost entirely of raw materials and semimanufactures. Chrome ore, residual fuel oil, platinum group metals, and gem diamonds have become more important in recent years.

20. Prospects for growth are more bearish for US imports from the USSR than for US exports. If MFN treatment were restored to the USSR and other import restrictions were removed, e.g., the fur embargo, there probably would be some growth in Soviet exports. The most likely candidates for expansion are Soviet diamonds, wood products (plywood), fish products, nickel, and a few other items such as manganese ore, hydrofoils, carpets, and plate glass. Low sulfur residual oil may also be sold in increasing quantities. With the possible exception of natural gas late in the 1970s, however, the commodities on which the USSR chiefly depends to earn hard currencies are in the main unlikely candidates for export expansion in the US. These include oil (except residual fuel oil), cotton, softwood lumber, and coal and coke. These major Soviet export commodities probably would not be exported to the US because of quota restrictions, lack of demand, supply constraints in the USSR, or inability to compete in price without evoking charges of dumping. The growth of US imports from the USSR is therefore likely to lag significantly behind that of US exports throughout most of the decade, resulting in substantial US surpluses which would have to be offset in part by US credit.

21. In their behavior at trade negotiations, the Soviets have sought to convey the impression that they are dealing with the United States from a position of strength. In the January 1971 discussions with US representatives, Soviet negotiators presented a possible LNG agreement with the US as a Soviet concession. Similarly, in discussions of a long-term grain agreement they are demanding "concessional" terms, including credit terms well beyond what can be legally offered. This sort of behavior rests on a strong tradition among Soviet foreign trade

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representatives, who place a great premium upon stimulating competition among prospective partners and upon beating the capitalists at their own game. While the Soviet negotiating stance is tough, however, the USSR evidently wants to conclude a trade agreement with the US, not only in order to acquire advanced technology and equipment and agricultural products, but also to demonstrate that the US has accepted the USSR as an equal.

Soviet Policy Toward the EEC

22. Over the years, Moscow has reluctantly, but gradually, changed its attitude toward the European Economic Community (EEC). Soviet propaganda has portrayed the EEC as a hostile economic-political bloc, which would discriminate in trade against the USSR and CEMA and eventually grow into a strong economic and political force in Europe. Toward the mid-1960s, it became apparent that the USSR could not frustrate the development of the EEC and that it was merely a matter of time before it would have to recognize economic and political reality in Western Europe and deal with the EEC on an official basis.

23. In 1970, the USSR admitted informally that it no longer opposed European communities and that it expected the United Kingdom to enter the EEC. The USSR, however, has so far refused to deal with the EEC on an official basis and has continued to negotiate its trade agreements with the individual members. To a great extent, it has been able to stave off official recognition of the EEC because the French and West Germans have refused--for different reasons--to accept a common commercial policy toward Communist countries.

24. The recent remarks by Brezhnev recognizing that the EEC is a fact of life mark a significant departure in Soviet policy. On 22 March 1972, Soviet Foreign Minister Gromyko confirmed that a "change in principle" toward recognition of the EEC had been approved by the Politburo. While the USSR is adopting a new policy toward the EEC, Brezhnev pointed out that "our relations with the participants" in the EEC will depend on the extent to which they, in turn,

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will "recognize the realities in the socialist part of Europe" and the interests of the CEMA member states, in particular.

25. It is difficult to forecast how the USSR itself will deal with the EEC. Although it now publicly accepts its existence, the USSR still distrusts it. Similarly, it is uncertain what Moscow has in mind for future EEC-CEMA relations. To the extent that CEMA can negotiate with the EEC as a group, Soviet ability to control individual East European states will be increased. In addition, CEMA's bargaining position will be strengthened, and it may therefore try to get some concessions, especially for agricultural goods. In recent years markets in the EEC for such Eastern products have faced difficulties because of the EEC Common Agricultural Policy. In coming out for relations in a CEMA-EEC framework, the Soviets are clearly trying to keep their Eastern European allies in line and to head off independent approaches. This tactic may not succeed for long, however, particularly if the EEC holds to its present unwillingness to deal in such a fashion.

Soviet Economic Policy Toward France

26. Since De Gaulle's visit to Moscow and the signing of the Soviet-French declaration in 1966, the USSR has tried to use what little economic leverage it had to encourage French separatist policies within the Western Alliance. Twice De Gaulle vetoed British entry into the EEC, and, thanks largely to the French, the adoption of a common EEC commercial policy toward the Communist countries has been postponed till at least 1975.

27. Pursuant to the 1966 declaration, several intergovernmental commissions and committees were formed, charged with finding practical means to fulfill the existing commercial, economic, and scientific agreements as well as exploring possibilities for new exchanges. The USSR tried to use these commissions and, with more success, to promote its own

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lagging exports to France to acquire scientific and technical data. French scientists generally agree that the flow of information has been largely one way--toward the USSR.

28. France, which still trails Japan, West Germany, and the UK in trade with the USSR, is seeking a larger share of the Soviet market. It has been generous with credit for major Soviet investment projects, e.g., for the construction of the Kama River truck plant in 1972 and for individual purchases of capital equipment. Moreover, the French have been among the leaders in Western Europe in removing restrictions on imports from the USSR. All French quantitative restrictions on Soviet goods are to be removed by 1974.

29. Brezhnev's visit to Paris in 1971, although primarily political in its objectives, apparently was also designed to instill new life into Soviet economic policy toward France. A ten-year extension of the 1966 Soviet-French cooperation agreement was signed, and a number of new industrial agreements were concluded. Trade and cooperation probably will expand, but growth will continue to depend on the political as well as the economic needs of each government.

Soviet Economic Policy Toward West Germany

30. West Germany emerged as a major industrial power by the late 1950s, and the USSR began to look increasingly to that country to supply equipment and technology needed for its own industrialization. The USSR concluded its first postwar trade agreement with West Germany in 1958 and, upon its expiration, another three-year trade agreement in 1961. In spite of the inability of the two countries to negotiate another trade agreement, West Germany emerged as a major Western supplier to the USSR during the 1960s.

31. The USSR began to warm up to West Germany after Willy Brandt became chancellor in 1969, hoping to reap benefits from the new West German Ostpolitik.

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In August 1970, the two countries signed a non-aggression treaty and immediately began negotiating a long-term trade agreement. After holding out for more than two years, the USSR has finally agreed to the formal inclusion of West Berlin as part of the West German trading area. On 7 April 1972, the two countries initialed a long-term agreement on trade and economic cooperation but, according to the Soviets, its signature will be delayed until ratification of the non-aggression treaty.

32. Discussing relations with West Germany at the last Supreme Soviet meeting, Foreign Minister Gromyko called for industrial cooperation, participation of West German firms in the exploitation of Soviet mineral deposits and the foundation of associated industrial complexes, broad exchanges of scientific and technical achievements, and a considerable expansion of trade. The USSR clearly hopes to attract West German assistance and capital for Soviet economic development, as well as to acquire West German technical and managerial expertise. Perhaps indicative of the scope and scale of the agreements which may follow are the two Soviet - West German gas-for-pipe deals, the first concluded in 1970 and the second about to be signed. Together they provide the USSR with long-term credits in excess of \$600 million to be repaid with future deliveries of natural gas. They also provide the USSR with a guaranteed market for its natural gas exports for a period of up to twenty years.

Soviet Economic Policy Toward Japan

33. Japan is now the leading Soviet trade partner in the Industrial West. Soviet foreign trade policy toward Japan has been based on the USSR's desire to expand imports of Japanese finished products and to encourage Japanese participation in the development of Siberia and the Soviet Far Eastern provinces. In addition, by expanding trade with Japan, the Soviets hope to convince the Japanese that the potentialities of continued Soviet trade and Siberian development significantly outweigh the gains Japan might derive from increased economic

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ties with Communist China. Moscow also hopes closer economic relations will promote better political relations.

34. The USSR has promoted the possibilities of Japanese economic assistance in the development of Siberian raw material resources. Stressing the Japanese advantage to be gained from long-term Soviet raw material deliveries, the USSR views Japanese assistance as a means of developing isolated regions with a minimum of Soviet investment. Soviet proposals for joint development have traditionally required Japanese investors to finance the cost of related infrastructure (e.g., railroads, housing) in addition to the cost of developing the extractive industry itself. Japanese investors, however, viewing Soviet proposals in competition with similar possibilities in other parts of the world, have often been deterred by the large capital costs involved in Siberian development. Japanese investors are also reluctant to invest in projects which may antagonize the Chinese and thus jeopardize the possibilities for future Sino-Japanese trade. Many Japanese leaders, moreover, remain insistent that the USSR relinquish control of the "northern territories"--those islands seized by the USSR from Japan at the end of World War II--in return for substantial Japanese investment in Siberian projects. While Moscow has made veiled suggestions that the "territories" issue may be open to negotiation, the USSR has continued to assert that discussions on cooperative ventures should not be tied to such other issues.

35. Several cooperative ventures in the Soviet timber industry and in Soviet port development have led to a significant growth in Soviet imports from Japan during the last two years, and the substantial orders placed by the USSR for Japanese machinery and equipment indicate that this trend will continue. The Soviets are anxious to conclude agreements for the development of the \$1 billion Irkutsk-to-Nakhodka oil pipeline. This project would eventually provide the USSR with a significant source of hard

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currency earnings. The Japanese Government has yet to commit itself to assisting in the construction of the pipeline and may well link such support to a re-negotiation of the "northern territories" question. The Soviets hope to demonstrate to Japan that the USSR, not Communist China, offers the best prospects for profitable economic relations over the long run.

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Table 8

Soviet Economic and Military Aid to Less Developed Countries
Extended and Drawn a/

Million US \$						
	<u>Economic Aid</u>		<u>Military Aid</u>		<u>Total Aid</u>	
	<u>Extended</u>	<u>Drawn</u>	<u>Extended</u>	<u>Drawn</u>	<u>Extended</u>	<u>Drawn</u>
<i>Total</i>	7,728	3,861	7,941	6,503	15,669	10,364
1954-61	2,703	551	2,113	977	4,816	1,528
1962	70	254	416	800	486	1,054
1963	239	344	387	574	626	918
1964	825	375	872	335	1,697	710
1965	372	351	262	331	634	682
1966	1,276	335	449	455	1,725	790
1967	290	287	515	443	805	730
1968	379	297	462	455	841	752
1969	480	338	329	408	809	746
1970	198	352	1,064	956	1,262	1,308
1971	896	377	1,072	769	1,968	1,146

a. Extended refers to the commitment to provide aid, either as a grant or on deferred payment terms. Credits allowing 5 years or more for repayment are included. Downpayments are not included as aid. The amount drawn refers to aid deliveries.

Table 9

Total Soviet Economic and Military Aid to Major Recipients
Extended and Drawn
1954-71

Million US \$						
	<u>Economic Aid</u>		<u>Military Aid</u>		<u>Total Aid</u>	
	<u>Extended</u>	<u>Drawn</u>	<u>Extended</u>	<u>Drawn</u>	<u>Extended</u>	<u>Drawn</u>
<i>Total</i>	7,728	3,861	7,941	6,503	15,669	10,364
India	1,612	978	1,119	822	2,731	1,800
Egypt	1,197	729	2,485	2,395	3,682	3,124
Afghanistan	705	580	455	285	1,160	865
Indonesia	114	110	1,092	858	1,206	968
Iran	601	310	325	235	926	545
Iraq	554	152	1,002	670	1,556	822
Pakistan	475	90	64	20	539	110
Syria	234	169	582	573	816	742
Algeria	426	136	395	286	821	422
Turkey	371	96	0	0	371	96
Other	1,439	511	422	359	1,861	870

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Soviet Economic and Military Aid
To The Less Developed Countries

Soviet assistance to the less developed countries, which totaled about \$15.5 billion at the end of 1971, is part of Moscow's drive to reduce the economic and political ties of these countries with the West. By providing an alternative source of capital and technology, the USSR has helped to diminish their dependence on the West while creating new markets for its own goods and enhancing its political image. The most dramatic shift in national political-economic relationships, attributable largely to the Soviet aid program, has taken place in Egypt.

All Soviet aid is "tied" and generally carries less concessionary terms than US aid. Almost all economic aid has been provided under credits requiring repayment over 12 years, with interest of 2.5 percent, while military assistance has allowed discounts from list prices equivalent to a 40 percent grant and repayment over 7-10 years at 2 percent interest.

Soviet aid commitments, which are divided almost equally between military and economic aid, rose from an annual average of \$425 million during 1954-59 to about \$1 billion a year in the 1960s and \$1.6 billion in 1970-71 (Table 8). Military assistance was the more significant component in 1970 and 1971, reaching \$1 billion in each year. Though commitments for economic aid were \$900 million in 1971, they were less than \$200 million in 1970. From the inception of its aid program in 1954, the USSR has concentrated its commitments in a few countries of the Middle East and South Asia (Table 9). Egypt and India account for 36 percent of all Soviet economic aid extended and 45 percent of its military aid. Afghanistan, Iran, Iraq, Pakistan, and Syria account for another 30 percent of total Soviet aid. Again in 1971, Moscow's major commitments were to countries in the Middle East and South Asia. Egypt received \$350 million of military aid; Iraq, \$250 million; and India, \$200 million. Egypt, Iraq, and Pakistan

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(the latter in January) each received some \$200 million of economic aid in 1971.

By the end of 1971, about two thirds of the total aid committed had been drawn. The implementation ratio for military aid (about 80 percent) is higher than the ratio for economic aid (about 59 percent) because of the much longer lead times required for constructing economic projects than for the delivery of arms. Drawings on economic credits were \$350 million in 1970 and \$375 million in 1971. Military drawings more than doubled in 1970 over the 1969 level, rising to about \$1 billion. Two thirds of the total drawn was accounted for by deliveries to Egypt, primarily for its air defense. Drawings on military aid were \$770 million in 1971, \$150 million of which went to India.

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